

Members

Sen. Luke Kenley, Chairperson
Sen. Thomas Wyss
Sen. Lindel Hume
Rep. Lawrence Buell
Rep. William Crawford



COMMISSION ON STATE TAX AND FINANCING POLICY

LSA Staff:

Michael Landwer, Attorney for the Commission
James Landers, Fiscal Analyst for the Commission
Diane Powers, Fiscal Analyst for the Commission
Chuck Mayfield, Fiscal Analyst for the Commission

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

Authority: IC 2-5-3-2

MEETING MINUTES¹

Meeting Date: September 22, 2005
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St., Room 431
Meeting City: Indianapolis, Indiana
Meeting Number: 1

Members Present: Sen. Luke Kenley, Chairperson; Sen. Thomas Wyss; Sen. Lindel Hume; Rep. Lawrence Buell; Rep. William Crawford.

Members Absent: None.

COMMENCEMENT OF THE MEETING

Sen. Luke Kenley, Chair of the Commission, called the meeting to order at 10:08 a.m. He made brief introductory remarks about the agenda items for today's meeting and the next meeting of the Commission, which is scheduled for October 13.

LOCAL FISCAL ISSUES

Sen. Kenley then welcomed **Matt Greller**, Executive Director of the Indiana Association of Cities and Towns (IACT), along with **Bill Sheldrake**, President of Policy Analytics LLC, and **Gary Malone**, Executive Partner of H.J. Umbaugh and Associates, to present some of the results of recent research undertaken by IACT into the public finance of Indiana cities and towns.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Mr. Greller distributed a handout entitled "A Proposal to Reinvent Municipal Fiscal Management and to Foster Efficiency in Indiana Cities and Towns." See Attachment 1. Mr. Greller explained that the primary purpose of the study was to find a way to reduce the fiscal reliance of Indiana cities and towns on property tax. He believes that this overall goal can be accomplished by simultaneously finding revenue alternatives for financing local government and searching for efficiencies that would reduce costs incurred by local governments.

Mr. Sheldrake and Mr. Malone then reviewed the handout page by page, elaborating on the research underlying the material in the handout and responding to questions by Commission members. Mr. Malone emphasized that a significant conclusion of their research is the need for local reserves, known variously as rainy day funds or budget stabilization funds.

The main recommendations in the IACT proposal encouraged legislators (1) to authorize additional taxing options for local governmental units to use and (2) to remove constraints that prevent or restrict local governmental units from freely cooperating to provide services in an efficient manner.

PROPERTY TAX DATA COLLECTION AND COUNTY COMPLIANCE

Sen. Kenley next recognized **Melissa Henson**, Commissioner of the Department of Local Government Finance (DLGF), to report on the compliance of the counties with various statutes requiring submission of property tax data to the DLGF.

Comm. Henson explained that there are eight key areas in which submission of data to DLGF is required. She distributed the chart entitled "Property Tax Data Collection and County Compliance" to facilitate the discussion. See Attachment 2.

Comm. Henson then distributed a copy of the memorandum (without attachments) dated September 2005 that was recently sent to county councils, county commissioners, county assessors, county auditors, county treasurers, township assessors, and trustee assessors. See Attachment 3. The memorandum informs these officials that SEA 327-2005 expanded the list of reasons for delaying distribution of state property tax replacement credits to include failure to comply with data collection requirements. Despite having this authority, Comm. Henson explained that her intention is to work with each of the local officials involved to achieve 100% compliance without resorting to withholding property tax replacement credits. Comm. Henson indicated that she regards this remedy only as a last resort. Her preference, she stated, was to emphasize communication with local officials.

After reviewing the data presented in the chart, Comm. Henson concluded her presentation by saying the lackluster compliance so far highlights the reason why Indiana needs a common property tax management system.

Sen. Kenley expressed his belief that while comprehensive property tax data collection is something we cannot afford to do without, we also cannot afford to withhold property tax replacement credits without making a good faith effort to help people achieve compliance.

Sen. Kenley recognized **David Bottorff**, Executive Director of the Indiana Association of Counties, who agreed with the need to accomplish the goal of comprehensive data collection. However, Mr. Bottorff expressed his hope that the withholding of property tax replacement credits would be used only as a drastic measure. There are significant reasons, he said, why counties have had difficulty complying with the demands from the State for property tax data. For one thing, the 2002/2003 reassessment made it very difficult for counties to deal with any major projects other

than the reassessment. And secondly, he reminded the Commission that county assessors have to go to county councils to get appropriations for software and programming, which may not be forthcoming or may not be funded at an adequate level.

The Commission also heard testimony from two local officials in attendance, **Judith Sharp**, Monroe County Assessor, and **Donald Shoeff**, Huntington County Auditor. Ms. Sharp described her experiences with attempting to meet the various property tax data collection requirements. She said that she was surprised to find out recently that Monroe County was among those counties that are not in compliance with the requirements, despite the fact that she had been submitting data for approximately three years without any adverse feedback from DLGF. Accordingly, her critique emphasized lack of communication between DLGF and local officials, but she also said that she is optimistic that this communication will improve. Mr. Shoeff pointed out that it would be unfair to withhold a county's property tax replacement credits when a county's failure to report data may be due to the failure of a single township assessor to complete the assessment work for that township.

STATE AND FEDERAL MANDATES ON PUBLIC SCHOOLS

For the final topic of the meeting, Sen. Kenley recognized **Rep. Eric Koch**, author of House Resolution 85 (2005), which called for the creation of a commission to study the effects of state and federal mandates on public schools in Indiana. Although the resolution was not adopted by the House, the Legislative Council did assign the topic to the Commission.

Rep. Koch introduced the topic and then asked **Chuck Mayfield**, Fiscal Analyst for the Legislative Services Agency, **Jeffrey Zaring**, State Board of Education Administrator, and **Dr. Bill Riley**, Budget Analyst for the Department of Education, to make a presentation on the topic.

Mr. Mayfield distributed a memorandum that he had prepared listing the various federal and state mandates on Indiana public schools. See Attachment 4. He then went through the memorandum to highlight the most significant of these requirements.

Rep. William Crawford asked how many schools are Title 1 schools, referring to Title 1 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 6301 et seq.). Mr. Zaring responded that the number is about 800 schools, mostly elementary. Rep. Crawford then indicated that he would like to have a listing of the schools and how much money they receive under Title 1. Sen. Kenley asked that Mr. Mayfield prepare that listing for the next meeting (October 13).

Sen. Kenley asked about special education. According to his understanding, he said, Indiana's special education requirements are more stringent than the federal special education requirements. Sen. Kenley asked Mr. Zaring about the rationale for the more stringent Indiana standards. Mr. Zaring confirmed the point, but said that the federal regulations have recently been revised and consequently Indiana's regulations pertaining to special education are now in the process of being rewritten themselves.

The final issue to come under discussion on the topic of federal and state mandates was the burdensome nature of state mandates. **Sen. Lindel Hume** described a resolution that he had once authored that called for mandates on school systems to be funded. Sen. Hume also related that many of the superintendents with whom he has spoken believe that many of the things required by the State could be accomplished in a less cumbersome manner. **Dr. Frank Bush**, Executive Director of the Indiana School Boards Association, drew a distinction between two types of mandates. Some mandates are simply rules that enforce consistency in the operation of the public schools in Indiana. The other type of mandates are unfunded mandates that impose significant costs on public schools. Sen. Hume

agreed that certain mandates are in place because there is clear and convincing evidence that they are good for public schools. On the other hand, Sen. Hume questioned whether, for example, annual ISTEP testing belongs in that category. The time required to prepare for the ISTEP tests and then administer those tests, he observed, takes significant time away from teaching. Annual testing, he suggested, may have more to do with comparing schools than with evaluating the progress of students.

CONCLUSION OF THE MEETING

Sen. Kenley declared the meeting adjourned at 12:00 p.m.